EXHIBIT AA

GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

Nine-digit CUSIP* numbers if available, to which the information relates:

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: **Puerto Rico Highways and Transportation Authority**

Other Obligated Person's Name (if any):

Six-digit CUSIP* number(s): **745181, 745190, 745185 (Teodoro Moscoso Bridge)**

TYPE OF INFORMATION PROVIDED:

A. ☐ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

Fiscal Period Covered:

B. ☒ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: 2015-16

C. ☐ **Notice of Failure to Provide Annual Financial Information as Required:**

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez
Sebastián M. Torres Rodríguez
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: May 7, 2018

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY

(a Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
REQUIRED SUPPLEMENTARY INFORMATION
AND SUPPLEMENTARY INFORMATION

June 30, 2016

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
TABLE OF CONTENTS
JUNE 30, 2016

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)	4 - 13
AUDITED FINANCIAL STATEMENTS:	
Statement of Net Position	14 - 15
Statement of Revenues, Expenses and Changes in Net Position	16
Statement of Cash Flows	17 - 18
Notes to the Financial Statements	19 - 59
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for Retiree Health Plan	61
SUPPLEMENTARY INFORMATION	
Schedule of Revenue and Expenses by Segment (Unaudited)	63

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Highways and Transportation Authority (a Component Unit of the Commonwealth of Puerto Rico) (the "Authority"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BDO

Basis for Qualified Opinion

As described in Note 15 to the basic financial statements, the Authority has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68, because the final audited pension information from the Employee Retirement System of the Government of the Commonwealth of Puerto Rico is not readily available. Therefore, the Authority has not recorded its proportionate share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense, and the Authority has not recognized the effect of current period changes in the net pension liability as it relates to, deferred outflows of resources, deferred inflows of resources and pension expense for the year ended June 30, 2016.

Accounting principles generally accepted in the United States of America require that the net pension liability, deferred outflows of resources, deferred inflows of resources, as applicable, be recognized in accordance with parameters established by Statements No. 68 and No. 71, as well as the effect of current period changes of the Net Pension Liability that must be recognized in pension expense during the current period.

In addition, the accompanying notes to the basic financial statements do not disclose the pension related information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter described above in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2016, and the changes in financial position and, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 4 to the financial statements, the Authority has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4.

In addition, as discussed in Notes 3 and 4 on May 21, 2017, the Financial Oversight and Management Board for Puerto Rico, filed a petition for relief for the Authority under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, *et seq.* ("PROMESA"). Title III is an incourt debt restructuring process similar to Chapter 9 of the U.S. Bankruptcy Code. The financial statements do not include any adjustments that might result from the outcome of this proceeding. Our opinion is not modified with respect to this matter

BDO

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)
Page 3

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 13 and the schedule of funding progress for retiree health plan on page 61 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Authority's Contributions and the Schedule of Authority's Proportionate share of the Net Pension Liability that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The schedule of revenues and expenses by segment on page 63, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BDO Puerto Rico PSC

San Juan, Puerto Rico

April 6, 2018

Certified Public Accountants
(of Puerto Rico)
License No.53 Expires December 1, 2018
Stamp E304958 of P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the "Authority") provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2016 and 2015. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

Financial Highlights

The Authority's net position totaled $2,569.9 million and $3,026.4 million at June 30, 2016 and 2015, respectively. Net position decreased by $456.6 million during the year ended June 30, 2016 as compared to an increase of $49.0 million during the year ended June 30, 2015. This change is due principally to a decrease in the gasoline, diesel and other taxes allocated by the Commonwealth of Puerto Rico during the year ended June 30, 2016 as explained in Note 4 to the financial statements.

The Authority's net capital assets, including assets under service concession agreements, totaled $10,306.9 million and $10,602.2 million at June 30, 2016 and 2015, respectively. Net capital assets decreased by 2.79% at June 30, 2016, when compared with the balance at June 30, 2015.

Long-term debt amounted to $4,606.8 millions at June 30, 2016 compared to $4,756.2 million at June 30, 2015 which consist principally of bonds payable. The decrease during the year ended June 30, 2016 consist principally of principal payments on bonds payable. Subsequent to June 30, 2016 and as described in Note 22 to the financial statements, the Authority defaulted in the debt service payments of certain bonds payable.

Financial Statements

The basic financial statements provide information about the Authority's activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements

The financial statements consist of the: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statement of Net Position

The statement of net position reports all financial and capital resources of the Authority. The statement is presented in the format where assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash or due and payable within one year) and noncurrent. The focus of the statement of net position is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net position is reported in the following categories:

Net Investment in Capital Assets - This component of net position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from toll operations, vehicle license fees, certain investment income, gasoline and petroleum taxes allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.

Restricted for Debt Service - This component of net position consists of restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - This component of net position consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - This component consists of net position that does not meet the definition of net investment in capital assets or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position includes operating revenues, which consist of toll, train fares, concession service, and other, and operating expenses, such as costs of operating toll roads, the mass transportation system, administrative expenses, and depreciation on capital assets; and "non-operating" revenue and expenses, such as gasoline, diesel, oil and petroleum taxes, cigarette taxes, vehicle license fee, interest and investment income, and interest expense. The statement also includes capital contributions and payments to Commonwealth of Puerto Rico. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss, and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used in operating activities, noncapital financing activities, capital and related financing activities and from investing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to the Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, bonds payable, long-term liabilities, retirement plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to read the notes in conjunction with the management discussion and analysis and the financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

Financial Analysis of the Authority

Statement of Net Position

The following table reflects the condensed net position of the Authority as of June 30, 2016 and 2015:

	2016	2015
Assets		
Current assets	$ 262,423,507	$ 263,320,747
Restricted assets, net of amount presented as current assets	206,059,971	445,471,743
Capital assets, net	10,113,645,874	10,424,915,154
Highways and bridge under concession agreement, net	193,220,632	177,297,739
Other non-current asset	888,902	1,179,136
Total assets	10,776,238,886	11,312,184,519
Deferred outflows of resources	104,284,118	116,947,257
Total assets and deferred outflows of resources	$ 10,880,523,004	$ 11,429,131,776
Liabilities		
Current liabilities	$ 2,501,852,054	$ 2,532,576,145
Long-term liabilities, net	4,606,802,542	4,756,186,952
Total liabilities	7,108,654,596	7,288,763,097
Deferred inflows of resources	1,201,985,548	1,113,928,786
Total liabilities and deferred inflows of resources	8,310,640,144	8,402,691,883
Net position		
Net investment in capital assets	2,810,877,793	3,019,515,602
Restricted for debt service	300,813,458	530,009,800
Restricted for construction	12,076,331	16,772,784
Unrestricted	(553,884,722)	(539,858,293)
Total net position	2,569,882,860	3,026,439,893
Total liabilities, deferred inflow of resources and net position	$ 10,880,523,004	$ 11,429,131,776

Current assets decreased by approximately 0.34% to $262.4 million during the year ended June 30, 2016. The net decrease in current assets of $897.2 thousands is due to a decrease in cash and cash equivalents of $15.0 million, increase in restricted assets classified as current asset of $2.0 million, increase in accounts receivable, net of $10.6 million and an increase in prepaid and other current assets of $1.5 million during the year ended June 30, 2016.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

Restricted assets decreased by approximately 54% to $206.1 million at June 30, 2016. Cash and cash equivalents and investments deposited with trustee decreased by approximately $177 million during the year ended June 30, 2016. This decrease is related to the use of the cash and investment with trustee for the payments of bonds and interest during the year. Amount due by the Commonwealth for taxes and other revenues allocated to the Authority decreased by approximately $59 because of a decrease in the taxes and other revenues received from the Commonwealth during the year ended June 30, 2016 as explained in Note 4 to the financial statements. On November 30, 2015 the Governor of Puerto Rico issued Executive Order 2015-046, which directed the Puerto Rico Treasury Department to retain certain revenues previously assigned to the Authority. In addition, amount due by U.S. Federal Government decreased by approximately $4 million during the year ended June 30, 2016. The amount of this receivable depends on the amount allocated to the Authority by the U.S. Federal Government.

During the year ended June 30, 2016, capital assets decreased by 3.0% to approximately $10,113.6 million. This decreased is the net result of an increase in construction in process, roads, bridges and equipment and vehicles of approximately $135.4 million net of an increase in accumulated depreciation of approximately $446.7 million principally due to the depreciation expense for the year.

During the year ended June 30, 2016, highways and bridges under service concession agreement increased by 9.0% to approximately $193.2 million. This increase is due to improvements to toll roads PR-5 and PR-22 amounting to approximately $18.7 million made by the operator net of an increase in related accumulated depreciation of approximately $2.7 million due to the depreciation expense for the year.

Deferred outflows of resources decreased by 10.8% to approximately $104.3 million due to the amortization of the deferred unamortized loss on advance refunding for the year ended June 30, 2016.

During the year ended current liabilities decreased by 1.2% to approximately $2,502 million. Major changes in current liabilities are the following:

Accounts payable and accrued liabilities, including accrued voluntary termination benefits and vacations and sick leave, increased by 0.09% to approximately $200.2 million. These liabilities change depending on the level of operations of the Authority.

Accrued interest payable increased by 14.3% to approximately $430.6 million during the year ended June 30, 2016 principally because the accrued interest on the lines of credit with the Government Development Bank ("GDB") has not been paid. Lines of credit with GDB decreased by approximately $79.3 due to payment made to GDB during the year.

Legal claims, not related to expropriation and related costs, decreased by 32.9% to approximately $19.4 million. Legal claims, related to expropriation of property, decreased 19% to approximately $107.6 million. The legal claims are recorded based on advise from legal counsel.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

The current portion of bonds payable increased by 4.0% to $117.9 million. This amount is based on scheduled payments for the next fiscal year.

During the year ended June 30, 2016, long-term liabilities decreased by 3.1% to $4,606.8 million. Bonds payable decreased by approximately $118.1 million due to payments made during the year and reclassification to current portion, net of amortization of bonds premium.

Deferred inflows of resources during the year ended June 30, 2016 increased by 7.9% to $1,202.0 million. On April 19, 2016, the Authority entered into an amendment of the Concessionaire Agreement to extend the original term to ten (10) additional years and to create five (5) bi-directional tolling points on PR-5 and PR-22 highways. The Authority received an upfront concession fee payment of $100 million. In addition, deferred inflows of resources increased by $18.7 million for improvements made by the Operator to the Toll Roads. The increase was reduced by the amortization of the deferred inflows of resources amounting to approximately $30.6 million during the year ended June 30, 2016.

During the year ended June 30, 2016, net position decreased by 15.1% to $2,569.9 million. The decreased is due to a loss of approximately $456.6 million after capital grants and payments to the Commonwealth during the year. The largest portion of the Authority's net position represents its investments in capital assets net of related debt outstanding used to acquire such capital assets.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for the years ended on June 30, 2016 and 2015:

	2016	2015
Operating revenues	$ 212,080,175	$ 228,949,953
Operating expenses	192,333,620	188,696,701
Depreciation and amortization	451,859,413	448,687,833
Operating loss	(432,112,858)	(408,434,581)
Non-operating revenues/(expenses)		
Non-operating revenues	279,794,437	566,277,810
Non-operating expenses	(350,439,465)	(432,446,896)
Total non-operating revenues/(expenses)	(70,645,028)	133,830,914
Loss before transfers and capital contributions	(502,757,886)	(274,603,667)
Payments and capital contributions, net	46,200,853	323,573,878
Change in net position	(456,557,033)	48,970,211
Net position at beginning of year	3,026,439,893	2,977,469,682
Net position at end of year	$ 2,569,882,860	$ 3,026,439,893

Operating revenues, which consisted of toll fares, train fares, concession service and other revenues decreased by 7.4% to $212.1 million during the year ended June 30, 2016. This decrease is the net of the following:

a. Decrease in other revenues of approximately $6.2 million due to a decrease in toll fines and other revenues of approximately $12.7 million net of a decrease in bad debt expense of approximately $6.6 million.

b. Decrease in concession revenue recorded during the year of approximately $13.0 million.

Operating expenses increased by 1.9% to approximately $192.3 million. During the year ended June 30, 2016 the increase in operating expenses of approximately $3.6 million is the net effect of a decrease in salaries and related benefits of approximately $3.2 million, a decrease in toll highway administration of approximately $24.9 million, a decrease of approximately $3.4 million in the integrated transportation system, a decrease of approximately $3.5 million in utilities, and a decrease in repairs and maintenance of toll and bridges of approximately $2.7 million offset by an increase of approximately $1.0 million in train operating costs and an increase of approximately $36.0 million in other expenses as the result of a reduction of the legal reserve during fiscal year 2015 of approximately $40 million. No such reduction was recorded during fiscal year 2016.

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum taxes, cigarettes tax and vehicle license fees allocated by the Commonwealth to the Authority decrease by 54.7% to approximately $279.8 million. On November 30, 2015, the Governor of Puerto Rico issued Executive Order Executive Order 2015-046, which directed the Puerto Rico Treasury Department to retain certain revenues previously assigned to certain public corporations and agencies, including the Authority. These revenues are to be used for other essential services within the Commonwealth. As the result the Authority did not received approximately $314.9 million in taxes during the year ended June 30, 2016.

Other non-operating revenues consists of operating grants and interest income on investments. Operating grants decreased by $10.7 million. The operating grants are received from the U.S. Federal Government to finance the operating costs of the mass rail transportation system. Interest income decreased by approximately $3.3 million due to the decrease in invested cash.

Interest on bonds and lines of credit decreased by approximately $34.2 million principally due to interest incurred on the rate swap agreement.

During the year ended June 30, 2016, management recorded an additional custodial credit risk loss for cash deposited in GDB of approximately $13.6 million. See Note 9 to the financial statements.

The Authority received capital grants from the U.S. Federal Government that are restricted for the construction of capital assets. Such capital grants amounted to approximately $126.0 million during the year ended June 30, 2016. In addition, during the year ended June 30, 2016, the Authority transfer cash to the Commonwealth of Puerto Rico amounting to $79.8 million to pay Commonwealth debts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Authority had approximately $10,306.9 million in capital assets, net of accumulated depreciation. Capital assets consist of roads, bridges, transportation equipment, buildings, land, construction in progress, equipment and construction in progress and highways and bridge under concession agreement.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan metropolitan area known as "Tren Urbano". The Authority originally incurred approximately $2.42 billion in costs, of which $685.7 million was paid with federal funds. The Tren Urbano in San Juan consists of approximately 17km. of track running from Bayamón to Santurce. Maintenance services are partially funded with capital contributions from the Federal Transit Administration (FTA). Total capital contributions received from FTA used for maintenance services amounted to approximately $24.4 million during the year June 30, 2016.

On August 3, 2014, the Governor of the Commonwealth signed the Law No. 123-2014 to create the Integrated Transportation Authority of Puerto Rico ("ATI") to establish their purposes, duties, powers and authorities and to authorize the Authority to transfer the Urban Train System during the fiscal year 2016. According to this Act, ATI will be in charge of the Metropolitan Bus Authority and the Authority of Maritime Transportation. The Authority does not currently contemplate that conditions for the completion of such transfer will be satisfied in the foreseeable future.

On September 22, 2011, the Authority entered into a toll road service concession agreement with "Autopistas Metropolitanas de Puerto Rico, LLC" (the "Operator"), in which the Authority granted to the Operator the right to finance, operate and maintain the PR-22 and PR-5 highways for a period of 40 years. During the 40-year term, the Operator will have the right to charge and collect the tolls imposed on these highways as more fully described in Note 11 to the financial statements.

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement (the Concession Agreement), amended in 1992, 2004 and 2009, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which crosses the San José Lagoon between the municipalities of San Juan and Carolina. The Operator designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994 as more fully described in Note 11 to the financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

The Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. Siemens is responsible for operating and maintaining Tren Urbano, and is entitled to receive for such services an annual base total amounts compensation, subject to inflation adjustment for changes in cost of labor and materials. The base compensation amounts to approximately $48 million per year and does not include the costs of insurance and electricity, which are paid by the Authority.

Debt Administration

As of June 30, 2016, the principal amount of the Highways and Senior Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts amounted to approximately $4,540.1 million. These bonds were insured and rated Ca by Moody's Investors Service (Moody's), and CCC- by Standard & Poor's (S&P) for the other bonds. The remaining uninsured bonds are rated Ca by Moody's and CCC- by S&P.

The Authority's bond sales must be approved by the Board of Directors that is composed by seven members. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

The Authority's has approximately $1,733.7 million of lines of credit outstanding with the Government Development Bank that are in default and remains in default at the date of the financial statements, because of lack of payment.

As disclosed in Note 22 to the financial statements, the Authority defaulted on certain principal and interest payments due on its bonds payable. Because of the Authority's liquidity problems as discussed in Note 4 to the financial statements future defaults are expected.

CURRENTLY KNOWN FACTS

GOING CONCERN

The Authority's financial statements as of and for the year ended June 30, 2016 has been prepared assuming that the Authority will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the Authority's operations and does not includes adjustments that might be required if the Authority is unable to continue as a going concern.

As explained in Note 4 to the financial statements, due to the number of uncertainties facing the Authority, lack of sufficient resources to pay its liabilities as they become due, the proceedings initiated under Chapter III of PROMESA as explained in Notes 3 and 4 to the financial statements have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern.

HURRICANES IRMA AND MARIA

During September 2017, hurricanes Irma and Maria struck the island of Puerto Rico causing widespread damages throughout the island. Management is in the process of determining the amount of damages suffered by the Authority's roads, bridges, mass transportation system and other capital assets. Although management has been unable to determine the amount of damages at the date of the financial statements, it expects that the amount will be significant.

In addition, hurricane Maria caused an interruption in the Authority's electronic toll system and in the operation of the urban train resulting in a loss of revenue. The Authority has insurance policies in force at the time of both hurricanes and expects to recover part of the losses incurred from the insurance companies.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2016

	2016
ASSETS	
Current assets:	
Cash and cash equivalents	$ 13,105,521
Restricted cash and cash equivalents with trustee	221,594,022
Accounts receivable, net	21,551,497
Prepaid expenses and other assets	6,172,467
Total current assets	262,423,507
Restricted assets:	
Cash and cash equivalents	1,547,675
Cash and cash equivalents and investments with trustee, net of amount presented as current assets	178,833,158
Receivables:	
U.S. Federal government	23,186,513
Commonwealth of Puerto Rico	1,196,424
Accrued interest and other	1,296,201
Total restricted assets	206,059,971
Other Non-current assets:	
Capital assets, net	10,113,645,874
Highways and bridge under concession arrangement, net	193,220,632
Other Postemployment benefit asset	888,902
Total other non-current assets	10,307,755,408
Total assets	10,776,238,886
DEFERRED OUTFLOWS OF RESOURCES -	
Deferred loss on advance refunding, net	104,284,118
Total assets and deferred outflows of resources	$ 10,880,523,004

Continues

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2016

Continued

	2016
LIABILITIES	
Current liabilities:	
Checks issued over bank balance	$ 49,469
Accounts payable	42,738,437
Accrued and other liabilities	30,925,798
Accounts and subcontractors payable	126,539,386
Accrued interest payable on lines of credit	326,951,087
Current portion of accrued legal claims	19,356,355
Nonrevolving lines of credit	1,733,697,500
Liabilities payable with restricted cash and cash equivalents:	
Current portion of bonds payable	117,940,000
Accrued interest on bonds payable	103,654,022
Total current liabilities	2,501,852,054
Non-current liabilities:	
Accrued legal claims	107,648,101
Accrued vacations and sick leave	15,661,618
Voluntary termination incentive plan liability	61,373,462
Bonds payable, net	4,422,119,361
Total non-current liabilities	4,606,802,542
Total liabilities	7,108,654,596
DEFERRED INFLOWS OF RESOURCES -	
Deferred inflows of resources -service concession arrangements	1,201,985,548
NET POSITION:	
Net investment in capital assets	2,810,877,793
Restricted for debt service	300,813,458
Restricted for construction	12,076,331
Deficit	(553,884,722)
Total net position	2,569,882,860
Total liabilities, deferred inflows of resources and net position	$ 10,880,523,004

The accompanying notes are an integral part of these financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	2016
OPERATING REVENUES:	
Toll and train fares	$ 144,912,274
Other income	36,570,987
Concession service	30,596,914
Total operating revenues	212,080,175
OPERATING EXPENSES:	
Salaries and related benefits	25,333,167
Post-employment benefits	3,015,312
Toll highways administration and maintenance	23,624,764
Train operating and maintenance costs	52,864,569
Integrated transportation system	14,876,786
Repairs and maintenance of roads and bridges	45,737,016
Utilities	9,093,428
Other	17,788,578
Total operating expenses	192,333,620
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	19,746,555
DEPRECIATION AND AMORTIZATION	451,859,413
OPERATING LOSS	(432,112,858)
NON-OPERATING REVENUES (EXPENSES):	
Gasoline, diesel, oil and petroleum tax revenues	179,060,430
Cigarettes taxes	8,954,083
Vehicles license fee	46,474,705
Other revenues	189,957
Operating grants	24,415,601
Interest on bonds and lines of credit	(336,799,055)
Investment income	8,487,173
Income from cancellation of debt service reserve forward agreement	12,079,000
Net change in fair value of investments	133,488
Custodial credit risk loss on deposits with governmental bank	(13,640,410)
Total non-operating revenues (expenses), net	(70,645,028)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(502,757,886)
PAYMENTS TO COMMONWEALTH OF PUERTO RICO	(79,800,000)
CAPITAL CONTRIBUTIONS	126,000,853
CHANGE IN NET POSITION	(456,557,033)
NET POSITION AT BEGINNING OF YEAR	3,026,439,893
NET POSITION AT END OF YEAR	$ 2,569,882,860

The accompanying notes are an integral part of these financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	2016
OPERATING ACTIVITIES:	
Receipts from toll and train fares	$ 135,091,473
Receipts from other sources	24,878,922
Payments to employees and related benefits	(29,102,036)
Payments to suppliers for goods and services	(187,269,829)
Net cash used in operating activities	(56,401,470)
NONCAPITAL FINANCING ACTIVITIES:	
Net change in checks issued over bank balance	(698,957)
Operating grants received	25,349,578
Receipt from cancellation of debt service forward agreement	12,079,000
Payments to Commonwealth of Puerto Rico	(79,800,000)
Net cash used in noncapital financing activities	(43,070,379)
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants received	129,433,236
Acquisition and construction of capital assets, net of capitalized interest	(153,564,260)
Receipts from gasoline, petroleum, cigarettes tax and vehicle license fees	293,090,607
Payments of lines of credit	(79,281,993)
Advances from service concession arrangements	100,000,000
Payments of bonds	(113,355,000)
Interest paid	(274,889,918)
Net cash used in capital and related financing activities	(98,567,328)
INVESTING ACTIVITIES:	
Deposits of cash and investments with trustee	344,501,911
Withdrawal of cash and investments with trustee	(171,546,028)
Investment and interest income received	7,788,355
Net cash provided by investing activities	180,744,238
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,294,939)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	31,948,135
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,653,196

Continued

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Continues

	2016
RECONCILIATION TO CASH AND CASH EQUIVALENTS PRESENTED IN THE STATEMENT OF NET POSITION:	
Cash and cash equivalents	$ 13,105,521
Cash and cash equivalents - restricted	1,547,675
Total	$ 14,653,196
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:	
Operating loss	$(432,112,858)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	451,859,413
Revenue from concession agreements	(30,596,914)
Custodial credit risk loss on deposits with govermental banks	(13,640,410)
Other non-operating revenues	189,957
Net change in operating assets and liabilities:	
Accounts receivable	(10,588,865)
Prepaid expenses and other assets	810,810
Accounts payable	(14,315,260)
Accrued liabilities	3,401,799
Accrued legal claims	(9,490,004)
Accrued vacations and sick leave	3,405,831
Accrued voluntary incentive plan liability	(5,324,969)
Net cash flows used in operating activities	$ (56,401,470)
SUPPLEMENTAL CASH FLOWS INFORMATION:	
Noncash transactions:	
Improvement to roads under concession arrangements	$ 18,653,676
Accretion of capital appreciation bonds	$ 1,130,772
Revenue from service concession arrangements	$ 30,596,914
Change in fair value of investments	$ 133,488

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

Puerto Rico Highways and Transportation Authority (the "Authority") is a public corporation and instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth"), created by Act No. 74 of June 23, 1965, as amended, to design, construct and administer toll roads and highways, and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth and accordingly is included in the basic financial statements of the Commonwealth. The powers are exercised by a Board of Directors that is composed by seven members which have the Authority to approve, amend, and revoke any regulations to perform its duties and to control the capital and operational budget.

The financial statements presented herein relate solely to the financial position and results of operations of the Authority and are not intended to present the financial position of the Commonwealth or the results of its operations or its cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Authority's operations are included on the statement of net position. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Authority accounts for its operations and financing in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Such accounts and these financial statements have been prepared on the basis that the Authority will continue as a going concern and as a legally separate governmental entity and component unit of the Commonwealth.

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities at the date of purchase of three months or less.

Investments

The Authority follows reports investments on the statement of net position at fair value and investment income, including changes in the fair value of investments, are reported as non-operating revenue/(expense) in the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at June 30, 2016.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost basis - Capital assets are recorded at historical cost or fair value for donated assets. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road sub-base, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction funds.

Capitalization Policy - Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $100 and an estimated life of more than three years.

Costs to acquire additional capital assets, which replace existing assets or otherwise extend their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are expensed as incurred.

Interest cost is capitalized as part of the historical cost of acquiring or constructing certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of Capital Assets - Depreciation is provided using the straight-line method over an estimated useful life of 40 years for roads and highways, 50 years for bridges and transportation system (including transportation equipment and facilities) and 10 years for equipment, vehicles and other.

Impairment of Capital Assets - The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets and recorded an impairment loss of $14 million in the construction in progress account during the year ended June 30, 2016, presented in the repairs and maintenance of roads and bridges line item of these financial statements.

Service Concession Arrangements

The Authority has entered into several service concession arrangements under which it has transferred the administration and operation of certain infrastructure assets to private organizations, in an exchange for concession fees. Amounts collected in advance are reported as deferred inflows of resources and is amortized into concession fee revenue in a systematic and rational manner over the term of the arrangement. The transferred asset is maintained in the Authority's financial statements. Improvements and betterments performed by the Operator to the transferred assets are capitalized by the Authority. See Note 11 for additional detailed information of the service concession arrangements in force as of June 30, 2016.

Claims and Judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

Deferred Outflow of Resources - Deferred Loss on Advance Refunding

Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense.

Bond Premiums (Discounts) and Bond Issuance Costs

Bond issuance costs are reported as expense during the year they are incurred.

Amortization related to bond premiums (discounts) were approximately $10.5 million for the year ended June 30, 2016 and are included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net position.

Net Position

Net position is classified in the following four components in the accompanying statements of net position:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted for Debt Service - Consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - Consists of restricted assets for the specific purpose of financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - Unrestricted net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position. As of June 30, 2016, the Authority has an accumulated deficit of $553.9 million. See Note 4 regarding the Authority's ability to continue as a going concern.

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received, except for prepaid amounts which are recognized when earned. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of gasoline, diesel, petroleum and cigarettes taxes and vehicle license fees which are allocated to the Authority by the Commonwealth as approved by law to finance the acquisition and construction of capital assets and for the payment of the related debt. These taxes and fees are recorded as non-operating revenues when the Commonwealth collects such taxes and informs the Authority.

Contributions

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Highway Administration ("FHWA") and Federal Transit Administration ("FTA") to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital contributions of the Authority are reported as contributions as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage for the year ended June 30, 2016.

New Accounting Pronouncements

GASB has issued the following statements that the Authority has not yet adopted:

GASB Statement Number	GASB Statement Name	Adoption Required in Fiscal Year Ending June 30
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
77	Tax Abatement Disclosures	2017
78	Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans	2017
80	Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14	2017
81	Irrevocable Split-Interest Agreements	2018
82	Pension Issues - an amendment of GASB Statement No. 67, No. 68 and No. 73	2018
83	Certain Assets Retirements Obligations	2019
84	Fiduciaries Activities	2020
85	Omnibus	2018
86	Certain Debt Extinguishment Issues	2018
87	Leases	2021

The impact of these statements has not yet been determined by the Authority.

Effects of New Accounting Standards

The following GASB statements were effective for fiscal year 2016:

On July 1, 2015, the Authority adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. In adopting this statement, the Authority has revised the note disclosure to reflect the level of fair value hierarchy for investments, as well as indicated the fair value methodology.

On July 1, 2015, the Authority adopted the provisions of GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the hierarchy of generally accepted accounting principles. This statement reduces the generally accepted accounting principles ("GAAP") hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified with a source of authoritative GAAP.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, *et seq.* (PROMESA), was enacted into federal law on June 30, 2016. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations

The following is a summary of PROMESA, which is intended as a broad overview of primary provisions:

Oversight Board: PROMESA establishes a seven member Oversight Board, the members of which have been appointed by the President of the United States from lists of candidates designated by Congressional leaders. The Oversight Board's authority is set forth in PROMESA. Key Oversight Board powers include, but are not limited to, the power to designate instrumentalities as "covered" instrumentalities subject to PROMESA; holding hearings and issuing subpoenas; certification of fiscal plans; approval of budgets; review of activities to ensure compliance with the fiscal plan; approve the issuance of debt; intervene in litigation against the Commonwealth government; analyze pensions and pension liability; initiate judicial proceedings to adjust debts under Title III of PROMESA; and approve voluntary modification of debts under Title VI of PROMESA. PROMESA establishes the Oversight Board as an autonomous entity within the Commonwealth government. The Oversight Board can hire officers, professionals and legal counsel.

Fiscal Plan and Budget: PROMESA requires the Commonwealth and covered instrumentalities to develop and comply with a fiscal plan. PROMESA establishes several requirements pertaining to the fiscal plans. Among other requirements, fiscal plans must: include revenue and expenditure estimates; ensure funding of essential public services; adequately fund public pension systems; provide for the elimination of structural deficits; include a debt sustainability analysis; improve fiscal governance, accountability, and internal controls; provide for capital expenditures and investments necessary to promote economic growth; and respect lawful priorities or lawful liens in effect prior to PROMESA's enactment.

Each fiscal plan is also required to set forth methods for the Commonwealth or instrumentality to access the capital markets. The Governor may develop the fiscal plan and submit it for the Oversight Board's approval, the Oversight Board may develop its own fiscal plan if the Governor's plan is not acceptable to the oversight board, or the Governor and the Oversight Board can jointly develop the fiscal plan.

PROMESA further specifies that no budget can be submitted by the Commonwealth's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board).

A fiscal plan is also required to comply with Puerto Rico law and to maintain valid liens. PROMESA further specifics that no budget can be submitted by the Commonwealth's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board).

Automatic Stay: Upon the enactment of PROMESA, effective July 1, 2016 a temporary stay or statutory injunction went into effect under Title IV thereof which stays, among other things, all actions and litigation against the Commonwealth and its instrumentalities to collect or enforce liabilities or claims and actions to possess or control their property. The stay has certain very limited exceptions, but generally all enforcement actions against the Commonwealth and its instrumentalities, or other actions to control their property, are stayed through the temporary stay period. The automatic stay was in effect until May 2017.

In addition, the initiation of proceedings under Title III of PROMESA, triggers application of the automatic stay under Section 362 of the United States Bankruptcy Code, as incorporated by reference into Title III of PROMESA, which similarly stays actions and litigation or attempts to collect or enforce liabilities or of any Title III debtor.

Debt Adjustment: Title III of PROMESA allows the Oversight Board, as representative of the Commonwealth or a covered instrumentality, to initiate debt adjustment proceedings in the United States District Court for the District of Puerto Rico. Title III incorporates by reference numerous provisions of the Bankruptcy Code, including many from Chapter 9 (which governs bankruptcy proceedings of a municipality).

A debt adjustment proceeding of the Commonwealth or a covered instrumentality under Title III of PROMESA would also include (like a reorganization proceeding of a municipal debtor under Chapter 9 of the Bankruptcy Code) (i) the imposition of the automatic stay, (ii) the ability of a debtor to generally govern its operations and engage in postpetition financing and (iii) the ability of the debtor to exercise avoidance powers.

Before initiating a Title III proceeding, the Oversight Board must certify, among other things, that the entity has engaged in goodfaith efforts to enter into voluntary agreements to restructure its debts, has an approved fiscal plan and has no "qualifying modification" of its bond debt (as addressed further below based on the collective creditor action provisions of PROMESA).

The Oversight Board is the only entity with the authority to submit a plan of adjustment to the court for confirmation. PROMESA requires that a plan of adjustment, among other things, be consistent with PROMESA and the debtor's fiscal plan, and that the plan be feasible and in the best interests of the creditors, considering what the creditors could otherwise recover under Puerto Rico law.

As discussed in Note 22, on May 21, 2017, as representative of the Authority, filed a petition under Title III.

4. GOING CONCERN

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt

and/or restructuring or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation. The Authority faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due.

The risks and uncertainties facing the Authority together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern in accordance with GASB Statement No. 56.

The accompanying financial statements has been prepared assuming that the Authority will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the Authority's operations and does not include adjustments that might be required if the Authority is unable to continue as a going concern.

The Authority has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's economic recession. Its principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (ii) maximize its revenues; and (iii) improving its liquidity.

During the year ended June 30, 2016 the Authority incurred in a loss before capital grants and transfers of approximately $503 million, its current liabilities exceeds its current assets by approximately $2,239.4 million at June 30, 2016 and at such date the Authority has an accumulated deficit of approximately $553.9 million.

The Authority borrowed more than $2 billion dollars from the GDB to finance infrastructure projects and pay operational expenses. These borrowings, in the form of lines of credit, had no source of repayment. The outstanding balance of these lines of credit as of June 30, 2016 amounts to $1.7 billion. These lines of credit expired in January 2016 and are currently in default.

The Commonwealth had previously assigned by law to the Authority certain taxes and other revenues. On November 30, 2015, the Governor of Puerto Rico issued Executive Order 2015-046, which directed the Puerto Rico Treasury Department to retain certain gasoline, oil, diesel, and petroleum taxes that the Commonwealth had previously assigned to the Authority. These revenues are to be used for other essential services within the Commonwealth of Puerto Rico. Executive Order 2015-046 had a significant negative effect on the Authority's liquidity. During the year ended June 30, 2016 the Authority did not receive taxes amounting to approximately $314.9 million. There has been no indication that the allocation of gasoline, oil, diesel, and petroleum taxes will resume.

Subsequent to June 30, 2016, the Authority defaulted in the debt service payments of certain bonds as explained in Note 22 to the financial statements. Because the Authority had accumulated cash in the bonds sinking fund accounts, it was able to make certain bond service payments due on July 1, 2016 and January 1, 2017. However, without the taxes and other revenues allocated by the Commonwealth explained above, the Authority is unable to deposit additional monies in the bond payment reserve accounts and without additional deposits the ability to continue making the schedule payments on the bonds issued is diminished.

The Authority had also been highly reliant on the GDB, for liquidity and financial management support.

GDB traditionally served as a source of emergency liquidity to bridge the Commonwealth and its component units deficits, but now is also experiencing its own liquidity constraints and is thus unable to continue serving in such role. Loans granted by GDB to the Commonwealth and its component units constitute a significant portion of GDB's assets. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years. The GDB's liquidity and financial condition depends on the repayment of loans by the Commonwealth and its component units. GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due.

On May 17, 2016 the Governor of Puerto Rico Signed Executive Order 2016-18 (EO 18) and on June 30, 2016, the Governor of Puerto Rico signed Executive Order No. OE2016030 (EO 30) and Executive Order No. OE2016031 (OE 31). Collectively, these orders declared the Commonwealth and several of its instrumentalities, including the Authority, to be in a state of emergency. The orders additionally authorized the Authority to apply toll revenues to fund essential services and suspended transfers to the fiscal agent under the Resolution 1968-18 dated June 13, 1968, as amended, and Resolution 1998-06 dated February 26, 1998, as amended. In addition, EO31 suspends the transfer of pledged revenues under Acts 30 & 31 to the GDB to the extent that those revenues are needed by the Authority to finance its operational expenses and/or pay for essential services. EO 31 does not suspend the payment obligations of the Authority with respect to any other obligation.

The Authority does not currently have sufficient funds available to fully repay its various obligations as they come due or that are currently in default, and is working on extending the due date of the obligations or obtaining new financing to provide relief and/or funds to repay the existing amounts of principal and interest or bring the outstanding balances current at the various due dates as well as to continue operate and to finance capital improvement projects. Additionally, significant support and funding for obligations of the Authority has previously been provided by the Commonwealth and sources from other entities that are part of the Commonwealth, such as the GDB. The Commonwealth and such entities are experiencing financial difficulties and may be unable to continue to extend, refinance or otherwise provide the necessary liquidity to the Authority as and when needed. As such, current defaults may not be cured and future defaults on the Authority's obligations may not be avoided. Management has plans to address its liquidity situation and continue its services. However, there can be no assurance that the Commonwealth will continue to provide adequate support or continue to allow the Authority to operate as a separate entity or that the affiliated or unaffiliated lenders will be able and willing to refinance or modify the terms of the Authority's obligations. As such, there can be no assurance that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that services will not have to be terminated, curtailed or modified.

On May 21, 2017, the Oversight Board, as the Authority's representative, filed a petition for relief under Title III of PROMESA. At the time of the petition, it is estimated that Authority's debt amounted to approximately $4.291 billion, excluding approximately $1.733 billion in GDB bonds. Title III is an incourt debt restructuring process similar to Chapter 9 of the U.S. Bankruptcy Code. Puerto Rico is not eligible to file a petition under Chapter 9. As explained above, the Title III proceeding triggers an automatic stay of litigation from creditors against the Authority.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2016 , consisted of:

		2016
Cash on hand and in banks	$	11,516,911
Certificates of deposits		1,588,610
Total	$	13,105,521

Cash and cash equivalents includes certificate of deposits with the Economic Development Bank (EDB) in the amount of $1.6 million, net of a custodial credit risk loss of approximately $5.7 million recorded during the year ended June 30, 2016. The certificate of deposits is non-collateralized and, therefore, is subject to custodial credit risk. The amount outstanding at June 30, 2016 was received by the Authority subsequent to year end.

In addition, the Authority has deposits with the GDB amounting to approximately $54.4 million for which an custodial credit risk loss was recorded in current and prior year for such amount as further described in Note 9 to the financial statements.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable at June 30, 2016 consisted of:

	2016
Government and other agencies	$ 55,523,494
Rent receivables	4,915,332
Repairs to highways recoverable from users	1,548,612
Department of Treasury of Commonwealth of Puerto Rico	12,000,000
Other	9,492,207
Total	83,479,645
Less allowance for doubtful accounts	(61,928,148)
Accounts receivable, net	$ 21,551,497

Receivables from governmental entities consist of charges made to various government agencies, public corporations and municipalities of the Commonwealth. Most of these amounts are significantly overdue and are included in the allowance for doubtful accounts at June 30, 2016. The amount due by the Treasury Department of the Commonwealth of Puerto Rico was collected subsequent to June 30, 2016.

7. RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS WITH TRUSTEE

Restricted cash, cash equivalents and investments with trustee at June 30, 2016, consisted of:

	2016
Cash on hand and in banks	$ 1,547,675
Cash equivalents and investments with trustee:	
Cash equivalents - money market accounts	$ 141,928,470
Mutual funds	98,356,529
U.S. Treasury Bill	2,990,611
Guaranteed investment contracts	91,558,202
US Government securities	26,725,509
Mortgage backed securities	25,589,000
Corporate bond	13,278,859
Total cash equivalents and investments with trustee	400,427,180
Less amount presented as current assets	221,594,022
Amount presented as non-current asset	$ 178,833,158

At June 30, 2016, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by the Fiscal Agent under the Bonds Resolutions in the following funds and accounts:

1968 Reserve Account - Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 1968-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund) under Resolution 1968-18)-Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account - Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account or Senior Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 1998-06) - Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund - Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 1998-06) - Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

1998 Construction Fund - Special fund created by the Resolution 1998-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (I) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998.

2004 Grant Anticipation Bond Reserve Account - Reserve for payment of principal and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

2014 Bond Anticipation Note Reserve Account - Reserve for payment of principal and interest on 2014 Bond Anticipation Notes in the event insufficient funds for such purpose are available in the Bond Payment Fund.

At June 30, 2016, amounts held by Trustee in the following accounts amounted to (in thousands):

		2016
1968 Reserve Account	$	75,109
1968 Sinking Fund		38,516
1998 Senior Reserve Account		249,054
1998 Senior Sinking Fund		6,624
1998 Subordinated Reserve Fund		26,536
1998 Subordinated Sinking Fund		2,279
2004 Construction Fund		2,309
Total	$	400,427

8. FAIR VALUE MEASUREMENTS

In 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The Authority categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. GASB Statement No. 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has ability to access.

Level 2 - Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in active markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the Authority's management. Authority's management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to Authority's management perceived risk of that investment.

The Authority has the following recurring fair value measurements as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S. treasury bill	$ 2,990,611	$ -	$ -	$ 2,990,611
U.S government obligations	-	26,725,509	-	26,725,509
Corporate bond	-	13,278,859	-	13,278,859
Mortgage backed securities	-	25,589,000	-	25,589,000
Total	$ 2,990,611	$ 65,593,368	$ -	68,583,979
Investments valued at net asset value of amortized cost:				
Cash equivalent - money market fund				141,928,470
Mutual funds				98,356,529
Guaranteed investment contracts				91,558,202
Total				$ 400,427,180

When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy.

For investments classified within Level 2 of the fair value hierarchy, the Authority's custodians generally use a multidimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

The Authority does not have any investments that are measured using Level 3 inputs.

9. DEPOSITS AND INVESTMENTS

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. Resolutions 1968-18, 1998-06 and 2004-18 (the Bond Resolutions) require that moneys in the debt service funds be held by Bank of New York (the Fiscal Agent) in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines for the GDB, the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained in GDB or EDB are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure, the Authority may not be able to recover the deposits.

All moneys deposited with the Trustee or any other depository institution hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

At June 30, 2016, the Authority was exposed to the following custodial credit risk arising from the balance of deposits maintained in governmental and commercial banks as follows:

	2016			
	Unrestricted		Restricted	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Commercial banks	$ 11,580,728	$ 12,327,892	$ 1,547,675	$ 1,547,675
Governmental banks	1,524,793	14,180,070	-	47,544,991
	$ 13,105,521	$ 26,507,962	$ 1,547,675	$ 49,092,666

Custodial Credit Risk Loss on Deposits with Government Development Bank (GDB) and Economic Development Bank (EDB)

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described in Note 4 to the financial statements. Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

The Commonwealth and its instrumentalities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

As the result of GDB's liquidity problem and as further described in Note 4 to the financial statements, management concluded that the Authority's cash deposits in GDB are considered a custodial credit risk loss at June 30, 2016.

In addition, the Authority has a certificate of deposit with EDB, which at June 30, 2016 amounts to approximately $7.2 million before an impairment loss of $5.7. Management believes that EDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Therefore, management considers the amount deposited in EDB to be a custodial credit risk loss except for approximately $1.5 million which was paid by EDB after June 30, 2016.

A summary of deposits in GDB and EDB at June 30, 2016 follows:

	2016
Government Development Bank	$ 54,396,174
Economic Development Bank	7,238,771
Total	61,634,945
Less custodial credit risk loss	(60,110,153)
Net deposits in governmental banks	$ 1,524,792

Total custodial credit risk loss on the above deposits recorded during the year ended June 30, 2016 amounts to approximately $13.6 million.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that in event of the failure of the counterpart, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of Aa1 (Moody's) or AA+ (Standard and Poor's). In addition, investments in bond sinking funds are limited to direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority maintains funds and accounts under the Bonds Resolutions that are held by a trustee. As of June 30, 2016, the total cash equivalents and investments with trustee amounted to approximately $400.4 million. These accounts invest on different types of short-term and long-term securities, including Guaranteed Investment Contracts (GICs). Under these GICs, the financial institution guarantees the Authority a fixed rate of return. As established in the contract, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the GICs is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2016, the contract value, which represents amounts deposited plus interest credited less withdrawals, is equal to the fair value.

Providers of guaranteed investment contracts as of June 30, 2016, are as follows:

	2016
Bank Of America	$ 46,883,778
FSA Capital Management Services	44,674,424
Total	$ 91,558,202

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate. Maturities of cash and cash equivalents and investments with Trustee at June 30, 2016, are as follows:

	2016				
	Less than One Year	One to Five Years	Five to Ten Years	Ten to Twenty Years	Total
U.S treasury bill	$ 2,990,611	$ -	$ -	$ -	$ 2,990,611
Cash equivalent - money market fund	141,928,470	-	-	-	141,928,470
Mutual funds	98,356,529	-	-	-	98,356,529
Guaranteed investment contracts	83,654,284	-	-	7,903,918	91,558,202
US Government and agencies securities	2,515,000	10,820,845	13,389,664	-	26,725,509
Corporate bond	13,278,859	-	-	-	13,278,859
Mortgage backed securities	25,589,000	-	-	-	25,589,000
Total	$368,312,753	$ 10,820,845	$ 13,389,664	$ 7,903,918	$400,427,180

Guaranteed investment contracts amounting to approximately $83.7 million were terminated during December 2016.

10. CAPITAL ASSETS, NET

The following schedule summarizes the capital assets, net, held by the Authority as of June 30, 2016:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Assets not being depreciated				
Land	$ 1,915,582,797	$ 102,529	$ -	$ 1,915,685,326
Construction in progress	349,291,342	166,884,804	(170,291,915)	345,884,231
Total assets not being depreciated	2,264,874,139	166,987,333	(170,291,915)	2,261,569,557
Assets being depreciated				
Transportation system	2,419,375,826	-	-	2,419,375,826
Roads	12,782,877,517	116,668,146	-	12,899,545,663
Bridges	3,507,443,355	22,329,460	-	3,529,772,815
Buildings	22,500,000	-	-	22,500,000
Equipment, vehicles and other	134,856,453	2,232,600	(2,526,963)	134,562,090
Total	18,867,053,151	141,230,206	(2,526,963)	19,005,756,394
Less accumulated depreciation	(10,707,012,136)	$ (449,128,630)	2,460,689	(11,153,680,077)
Total assets being depreciated	8,160,041,015	(307,898,424)	(66,274)	7,852,076,317
Total capital assets, net	$ 10,424,915,154	$ (140,911,091)	$ (170,358,189)	$ 10,113,645,874

Interest expense incurred during the year ended June 30, 2016, amounted to approximately $337 million, of which approximately $1.9 million was capitalized as part of construction in progress in the accompanying statement of net position.

11. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION ARRANGEMENT

Highways and bridge under service concession arrangement as of June 30, 2016 is summarized as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Toll roads (PR 5 and PR 22)	$ 310,391,908	$ -	$ -	$ 310,391,908
Toll roads concession improvements	22,059,321	18,653,676	-	40,712,997
Bridge	109,500,000	-	-	109,500,000
Total	441,951,229	18,653,676	-	460,604,905
Less accumulated depreciation	(264,653,490)	(2,730,783)	-	(267,384,273)
Total	$ 177,297,739	$ 15,922,893	$ -	$ 193,220,632

Toll Roads Service Concession Arrangement (PR-5 and PR-22)

On September 22, 2011, the Authority entered into a toll road service concession arrangement with the Operator, in which the Authority granted to the operator the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years (the Concession Agreement). During the 40-year term, the Concessionaire will have the right to charge and collect the tolls imposed on the Toll Roads.

The Authority received an upfront concession fee payment of $1.136 billion, from which approximately $873.1 million was used to redeem or defeased bonds issued and outstanding associated with the Toll Roads

In 2012, the Authority recorded a deferred inflow of resources from service concession arrangement of $1.136 billion that will be amortized and recognized as revenue over the 40-year term of the agreement. In 2012, the Authority recognized $21.0 million of revenue related to this transaction and will recognize $28.4 million for each subsequent year through 2052. The Toll Roads (capital assets) will continue to be reported in the statement of net position as a separate item as highways and bridge under service concession arrangement. Toll Roads at June 30, 2016 amounted to approximately $131.5 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011 until the end of the agreement since the concession agreement requires the Operator to return the Toll Roads to the Authority in its original or an enhanced condition. However, improvements by the Operator to the toll roads are depreciated over the estimated useful life.

On April 19, 2016, the Authority entered into an amendment of the Service Concession Arrangement to extend the original term for ten (10) additional years and to create five (5) bi-directional tolling points on PR-5 and PR-22 highways. The Authority received an upfront concession fee payment of $100 million, from which was used to pay $18.2 million of Authority current debts and $79.8 million to pay Commonwealth debts. Also, the Authority will receive additional $15 million on the earlier of the bidirectional tolls commencement date on June 30, 2017.

In addition, the Authority capitalized and considered as deferred inflows of resources \$18.7 million during the year ended June 30, 2016, for improvements made by the Operator to the Toll Roads.

Bridge Service Concession Arrangement

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement amended in 2004 and 2009, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which crosses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

As of June 30, 2013, the Authority recognized the Bridge at fair value, equivalent to what the Authority might have paid to have the Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be \$109.5 million depreciated over an estimated useful life of 50 years and a deferred inflow of resources of \$109.5 million that will be amortized and recognized as revenue over the term of the agreement (50 years). The asset balance related to the Bridge was adjusted to recognize the first 17 years of operation and the remaining amortization will be amortized by 33 years

Under certain circumstances, including if minimum toll revenues are not achieved, the Service Concession Arrangement may be terminated, and the Authority is then obligated to assume all of Autopistas' obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. Although Autopistas currently has the ability to terminate the Service Concession Arrangement and have the Authority to assume the obligations, the Authority has not received such notice and does not currently expect the Service Concession Arrangement to terminate. The outstanding bonds (including accrued interest), which are not reflected in the Authority's statement of net position, at June 30, 2016, amounted to approximately \$150.7 million.

The deferred inflows of resources at June 30, 2016 , consisted of:

	2016
Toll Roads Concession	\$ 1,140,665,548
Bridge Concession	61,320,000
Total	\$ 1,201,985,548

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

12. LONG-TERM LIABILITIES

Long-term debt activity for the year ended June 30, 2016, was as follows:

	Balance at June 30, 2015	Issuance/ Accretions	Payments/ Amortization	Balance at June 30, 2016	Due within One Year
Serial bonds					
Resolution 1968-18	$ 437,090,000	$ -	$ (12,155,000)	$ 424,935,000	$ 28,335,000
Resolution 1998-06	1,306,100,000	-	(58,170,000)	1,247,930,000	61,245,000
Total	1,743,190,000	-	(70,325,000)	1,672,865,000	89,580,000
Term bonds					
Resolution 1968-18	407,910,000	-	(14,815,000)	393,095,000	-
Resolution 1998-06	1,845,010,000	-	(2,965,000)	1,842,045,000	3,110,000
Total	2,252,920,000	-	(17,780,000)	2,235,140,000	3,110,000
Variable rate bonds					
Resolution 1998-06	200,000,000	-	-	200,000,000	-
CPI based interest-rate bonds					
Resolution 1998-06	57,965,000	-	-	57,965,000	-
LIBOR based interest-rate bonds					
Resolution 1998-06	700,000	-	-	700,000	-
Capital appreciation bonds					
Resolution 1968-18	24,462,259	1,130,772	-	25,593,031	-
Resolution 1998-06	118,947,406	4,605,440	(25,250,000)	98,302,846	25,250,000
Total	143,409,665	5,736,212	(25,250,000)	123,895,877	25,250,000
Total before bond premium	4,398,184,665	5,736,212	(113,355,000)	4,290,565,877	117,940,000
Add net bond premium	259,967,815	-	(10,474,331)	249,493,484	-
Total bonds outstanding	$4,658,152,480	$ 5,736,212	$ (123,829,331)	$4,540,059,361	$ 117,940,000
Other long-term liabilities					
Accrued legal claims	$ 162,146,003	$ 30,767,631	$ (65,909,178)	$ 127,004,456	$ 19,356,355
Accrued vacations and sick leave	21,839,230	9,156,368	(5,750,538)	25,245,060	9,583,442
Voluntary termination incentive plan liability	75,185,092	-	(5,324,968)	69,860,124	8,486,662
Non-revolving lines of credit	1,812,979,493	-	(79,281,993)	1,733,697,500	1,733,697,500
Total other liabilities	$2,072,149,818	$ 39,923,999	$ (156,266,677)	$1,955,807,140	$1,771,123,959

13. BONDS PAYABLE

The bond resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the bond resolutions at June 30, 2016, consisted of:

	2016
RESOLUTION 1968-18	
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	$ 424,935,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	393,095,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.36% to 4.58%	25,593,031
Total resolution 68-28	843,623,031

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

RESOLUTION 1998-06	
Serial bonds, maturing through 2037 with interest ranging from 2.25% to 5.75%	1,247,930,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	1,842,045,000
Variable rate bonds	200,000,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.47% to 5.08%	98,302,846
LIBOR based interest rate bonds maturing through 2045	700,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000
Total resolution 1998-06	3,446,942,846
Total bonds outstanding	4,290,565,877
Add: Net unamortized premium	249,493,484
Net bonds payable	4,540,059,361
Less: Current portion	117,940,000
Long-term portion	$ 4,422,119,361

The bonds pledge, to the extent they are received from the Commonwealth, the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of $11 million monthly (but not more than $120 million annually) derived from excise taxes over crude oil and its derivatives, $15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Commonwealth may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The Authority's bond payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, that require rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2016.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees allocated to the Authority are taxes and revenues available under the Constitution of the Commonwealth for the payment of principal and interest of bonds. Accordingly, if needed, they are subject to retention by the Commonwealth. On November 30, 2015, the Governor of Puerto Rico issued Executive Order 2015-046, which directed the Puerto Rico Treasury Department to retain certain gasoline, oil, diesel, and petroleum taxes that had previously been allocated to the Authority. These revenues are to be used for other essential services within the Commonwealth. The Authority has seen the effect of Executive Order 2015-046 on its revenues commencing on fiscal year 2016. During the year ended June 30, 2016, the Commonwealth retained taxes amounting to approximately $314.9 million that would have otherwise been transferred to the Authority as further described in Note 4.

The Bond Resolutions further provides that receipts of pledged revenues be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

The variable rate bonds bear interest at an annual rate of interest (no to exceed the maximum legal rate) as determined by the remarking agent on and as of the rate determination rate. This rate will be, in the judgement of the remarking agent under existing current market conditions, the rate that would result in the sale of the outstanding variable interest bonds at a price equal to the purchase price as defined in the bond offering. The effective rate of these bonds at June 30, 2016 was 12%.

The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%). The effective rate on these bonds at June 30, 2016 was 1%.

Interest on the Consumer Price Index (CPI) Bonds will be payable on the first business day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%). The effective rate on these bonds at June 30, 2016 was 1.53%.

Debt Maturities

The outstanding bonds as of June 30, 2016, require future payments of principal and interest as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2017	$ 117,940,000	$ 212,073,572	$ 330,013,572
2018	121,656,588	207,127,412	328,784,000
2019	125,626,655	201,975,425	327,602,080
2020	130,026,563	196,457,598	326,484,161
2021	136,508,038	190,076,640	326,584,678
2022-2026	770,303,698	842,579,599	1,612,883,297
2027-2031	872,549,335	647,884,373	1,520,433,708
2032-2036	1,036,960,000	418,510,440	1,455,470,440
2037-2041	843,560,000	145,572,188	989,132,188
2042-2046	121,560,000	16,464,425	138,024,425
2047	13,875,000	693,750	14,568,750
Total	$ 4,290,565,877	$ 3,079,415,422	$ 7,369,981,299

For variable interest-rate bonds included above, the debt service requirements and net swap payments were computed assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

As explained in Note 22 the Authority defaulted in the payment of debt service of certain bonds outstanding at June 30, 2016.

Debt Refunding

The outstanding balances as of June 30, 2016, of the bond issues defeased by the Authority are as follows:

	2016
Series Y	$ 422,680,000
Series M	10,000
Series AA	189,830,000
Series BB	22,265,000
Series CC	6,520,000
Series Z	23,690,000
Total	$ 664,995,000

14. BORROWINGS UNDER LINES OF CREDIT

The Authority has various unsecured lines of credit with the GDB. The lines of credit were due on various dates through January 31, 2016 and therefore are on default at June 30, 2016 and remains in default as of the date of these financial statements were issued. The amount outstanding under these lines of credits amounts to approximately $1,733.7 million and bears interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin which range from 125 to 275 basis points (6% at June 30, 2016). During the year ended June 30, 2016 interest expense on these lines of credits amounted to approximately $108.2 million and the accrued and unpaid interest on such notes amounted to approximately $326.9 million at June 30, 2016.

15. RETIREMENT PLAN

The following description refers to the Retirement System's benefits and operations before the approval of Act No. 106-2017, on August 23, 2017. See Note 22.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program and a defined contribution hybrid program.

Disclosures about the Defined Benefit Retirement Plans

Defined Benefit Program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible, is limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

The Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447 to establish a new retirement program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, and became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the system 2000 Program. Investment income is credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries.

Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

On April 4, 2013, the Legislature enacted Act No. 3 which amended the provisions of the different benefit structures under the Retirement System, including the System 2000 Program.

Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 447, Act No. 1 and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

- Increased the minimum pension for current retirees from $400 to $500 per month.
- The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age61.
- The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.
- Eliminated the “merit annuity” available to participants who joined the retirement System prior to April 1, 1990.
- The retirement age for new employees was increased to age 67.

- The employee contribution rate was increased from 8.275% to 10%.
- For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the Retirement System.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2016, the Authority was required to contribute 14.275% of each participant's gross salary under the different benefit structures. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Total employee contributions for the defined benefit pension plan, the defined contribution plan and the defined contribution hybrid program during the year ended June 30, 2016, amounted to approximately $4.9 million. The Authority's contributions (either paid or accrued) during the year ended June 30, 2016 amounted to approximately $7 million. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately $51 million for the year ended June 30, 2016. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Statement No. 68 of the *Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions*

Statement No. 68 of the *Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 68)* became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the Retirement Systems.

As of the date of the release of this report, the Retirement System has not provided the Authority with the required information to implement the requirements of Statement No. 68 of the Governmental Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No 27 (GASB 68). Therefore, the accompanying financial statements do not have any adjustments that will be necessary for the Authority to account for its proportionate share of the net pension liability, deferred inflows of resources and deferred outflows of resources in the statements of net assets as of July 1, 2015 and June 30, 2016, as well as the effect in the recorded pension expense in the statement of activities for the year ended June 30, 2016. Also, additional disclosure required by GASB 68 as well as required supplementary information were not included in the basic financial statements.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2014, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

16. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit as Other Post-Employment Benefits Plan (the "Plan"). The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the Plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Annual OPEB Cost and Net OPEB (Asset) Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contributions of the employer (ARC). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB No. 45 for employers in the Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan, and the Authority's net OPEB (asset) obligation to the Plan:

	2016
Annual required contribution (ARC)	$ 326,303
Adjustment to annual required contribution	35,144
Annual OPEB cost (AOC)	361,447
Contributions made	71,213
Decrease in net OPEB obligation	290,234
Net OPEB asset at beginning of year	(1,179,136)
Net OPEB asset at end of year	$ (888,902)

The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB (asset) obligation for the year ended June 30, 2016, were as follows:

Year Ended June 30,	OPEB Cost	OPEB Cost Contributed	(Asset)/ Obligation
2016	$ 361,447	19.70 %	$ (888,902)
2015	348,804	6.16 %	(1,179,136)
2014	347,886	7.23 %	(1,506,466)
2013	378,179	14.89 %	(1,829,177)
2012	704,307	231.68 %	(2,151,043)

As of June 30, 2016, the actuarial accrued liability for benefits was $2,745,000, which were unfunded. The covered payroll (annual payroll of active employees covered by the plan) were approximately $52.1 million during the year ended June 30, 2016, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately 5.3% as of June 30, 2016.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The valuation date was July 1, 2014 and the *Projected Unit Credit Cost Method* was used. The actuarial assumptions were based on a set of assumptions modified to the Authority.

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority's historical turnover experience. Retirement rates were also based on recent Authority's experience, but are less reliable due to the size of the current retiree group and the relative newness of the program.

A discount rate of 3.25% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

17. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 years to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employee and the employer contributions to the Retirement System and pay the corresponding pension obligation until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement.

Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement System for a five-year period.

Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $69.9 million in the statement of net position as of June 30, 2016, and a charge of $3 million in the statement of revenues, expenses and changes in net position for the years ended June 30, 2016. At June 30, 2016, unpaid long-term benefits granted on this program were discounted between 1.23%, for early retirement benefits that will be provided to eligible employees that have completed between 15 years to 29 years of credited service in the Retirement System and between .44% and .56, for employee and the employer contributions to the Retirement System to eligible employees that have 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement.

18. RELATED PARTY TRANSACTIONS

Operating administrative and general expenses during the fiscal years ended June 30, 2016, included approximately $9.1 million of charges from Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth. In addition, during the year ended June 30, 2016 the Authority received charges from the Public Building Authority (PBA), a component unit of the Commonwealth of Puerto Rico, for rental of buildings amounting to approximately $792 thousand.

As of June 30, 2016, the Authority had approximately $55.5 million of receivables from the Commonwealth and its component units, which were reported in accounts receivable in the accompanying statement of net position. These amount is for various services and charges to the Commonwealth and its component units. A significant amount of this balance is overdue at June 30, 2016 and therefore is included in the allowance for doubtful accounts at that date.

In addition, restricted assets include $1.2 million due by the Commonwealth for petroleum and other taxes allocated to the Authority.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit to the Authority in order to finance capital improvement projects and operational deficits. As of June 30, 2016, the Authority an outstanding balance of approximately $1,734 million under these lines of credit as explained in Note 14 to the financial statements. Total interest expense on these lines of credits recorded during the year ended June 30, 2016 amounted to approximately $108.2 million. Total accrued interest on these lines of credit amounted to approximately $326.9 million.

Bonds payable include $200 million variable rate bonds, purchased by GDB from a third-party on May 19, 2014.

As of June 30, 2016, the Authority has amounts due to other governmental entities for operating leases, utilities, interest on line of credits and other agreements of approximately $401.4 million which are included in accounts payable and accrued liabilities in the accompanying statement of net position.

During the year ended June 30, 2016 the Authority made a cash payment to the Commonwealth of Puerto Rico amounting to approximately $79.8 millions.

19. COMMITMENTS AND CONTINGENT LIABILITIES

Construction

As of June 30, 2016, the Authority had commitments of approximately $158.2 million related to construction contracts.

Leases

The Authority has various non-cancelable operating leases for office space with the Puerto Rico Public Buildings Authority, which is a related party. These leases have an initial term of three years or more, and were due during fiscal years 2003 and 2004. The contracts have not been renewed and the Authority continues to use the premises on a month to month basis. The rental recorded by the Authority on these contacts amounts to approximately $792 thousands during the year ended June 30, 2016.

Litigation

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2016, the Authority, based on legal advice, has recorded a liability of approximately $127 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of $19.4 million of legal cases related to construction projects and $107.6 million related to expropriation and related costs. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise from such claims would not be significant to the Authority's financial position or results of operations.

The Authority has been named as defendant in various legal cases related to the Puerto Rico Emergency Moratorium and Financial and Rehabilitation Act ("Moratorium Act") and the to the filing for protection relief under PROMESA as explained in Notes 3 and 4 to the financial statements. Some of these cases has been dismissed by the Courts without prejudice in favor of the Authority while others are in early stages or in appeals process. Management, after consulting legal counsel, believes that it is too early to determine the final outcome of these cases and the impact, if any, their final resolution will have on the Authority's financial position and results of operations.

Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas entered into a service concession arrangement (the Concession Arrangement), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which crosses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately $117 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Series A amounting to approximately $153 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, including if minimum toll revenues are not achieved, the Service Concession Arrangement may be terminated, and the Authority is then obligated to assume all of Autopistas' obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. Although Autopistas currently has the ability to terminate the agreement and has the Authority to assume the obligations, the Authority has not received such notice and does not currently expect the Concession Arrangement to terminate. The outstanding bonds (including accrued interest), which are not reflected in the Authority's statement of net position, at June 30, 2016, amounted to approximately $146.3 million.

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, or to compliance audits by grantor agencies. On March 31, 2014, the Federal Highway Transportation approved $756.4 million in toll credits that may be applied toward the non-Federal matching share of transit projects. These toll credits will remain available until used. Since inception only $90 million in toll credits have been claimed, there is an outstanding balance of $700.1 million waiting validation for future federally aided projects.

20. OPERATION AND MAINTENANCE OF URBAN TRAIN SYSTEM

The Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. During 2005, the STTT Contract became effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates $4 million on a monthly basis. The total annual operation and maintenance cost, including cost of insurance and electricity, for the year ended June 30, 2016, was approximately $56.6 million including approximately $32 million paid under this contract. On June 5, 2015, the Authority extended the contract for the operation and maintenance of the Tren Urbano for one (1) additional year ending on June 6, 2016.

The Authority contracted First Transit, a public corporation of the Commonwealth, to operate the service known as Metrobus I which consists of two express routes, Metrobus Route I and Metrobus Expreso, which provides service between the University of Puerto Rico and Old San Juan. The service is provided seven days a week using 24 buses owned by First Transit. The existing service agreement with First Transit expired on June 30, 2015 and was extended to June 30, 2018.

21. OTHER OPERATIONAL INCOME

Other operating income for the year ended June 30, 2016, consisted of:

	2016
Electronic toll label sales and fines fees	$ 29,129,579
Bridge fee	1,714,605
Rental income	1,055,754
Impact fee	1,011,146
Metrobus fare fees	705,725
Other	2,954,178
Total	$ 36,570,987

22. SUBSEQUENT EVENTS

Subsequent events were evaluated through April 6, 2018, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2016 financial statements.

On December 28, 2015, Act. No. 211, known as the Pre-retirement Voluntary Program Act (the "Act") was enacted. The Act allows eligible active employees under the Government of Puerto Rico Employee Retirements System (the "Retirement System") under Act No. 447, hired before April 1990, with a minimum of twenty years (20) of service, to participate in a voluntarily retirement program. The estimated total cost of this program to the Authority is approximately $47 million and the Authority expects savings of $98.9 million at the culmination of the program.

On July 1, 2016, the trustee of the Authority's 1998 Resolution SIB Bonds notified the Authority that it failed to make a portion of the principal and interest payment to the trustee on July 1, 2016 and that a default under the trust agreement constitutes an event of default under the 1998 Resolution SIB Bonds Trust Agreement. As such, the Authority is in default of this obligation. The amount not paid amounted to approximately $4.5 million of which approximately $3.3 million were paid the insurance company under the financial guarantee insurance policy.

On May 21, 2017, Puerto Rico's Financial Oversight Board (the "Oversight Board") initiated proceedings under Title III of PROMESA as described in Notes 3 and 4 to the financial statements.

On June 30, 2017, the Oversight Board approved and certified the Budget for the fiscal year 2018 of the Authority.

On July 3, 2017, by virtue of roll over from July 1, 2017, next business day, the trustee of the Authority notified the Authority that if failed to make payment on principal and interest amounting to approximately $107.2 million and $116.9 million, respectively, under the 1968 and 1998 Bond Resolutions. Of the total amount defaulted by the Authority approximately $76.5 million and $66.7 of principal and interest respectively was paid by the insurance company under the financial guarantee insurance policy.

On July 19, 2017 the Treasury Department of the Commonwealth of Puerto Rico ("Treasury Department") issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, the new pay-as-you-go (""PayGo") mechanism for all the Commonwealth's Retirement Systems. With the start of the fiscal year 2017, employers' contributions, contributions ordered by special laws and the additional uniform contribution were all eliminated and replaced with a monthly PayGo charge that will be collected from the aforementioned entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporations and municipalities. The PayGo must be submitted to the Treasury Department before the 15th of each month along with the individual contributions withheld from active employees. As liquid retirements funds become depleted, the PayGo charge is expected to increase. In addition to the PayGo mechanism being established, the Commonwealth is also working on a reform of the Retirement Systems, in which active participants would deposits their individual contributions in a New Defined Contribution Plan that will be managed by a private entity. This reform became law on August 23, 2017 with the enactment of Act 106-2017, *Act to Guarantee the Payment of Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants*. The PayGo charge to the Authority is based on the amount of pensions the Commonwealth will pay to the Authority's retired employees. It is estimated that the Authority PayGo charge will be approximately $34 million during the year ending June 30, 2017.

During September 2017, hurricanes Irma and Maria struck the island of Puerto Rico causing widespread damages throughout the island. At the date of the financial statements management is in the process of determining the amount of damages suffered by the Authority's roads, bridges, mass transportation system and other capital assets. Although management has been unable to determine the amount of damages at the date of the financial statements, it believes that the damages will be significant. A preliminary assessment of the physical damages to roads and bridges amounts to approximately $437 million. Management is still in the process of assessing the physical damages to the urban train system. In addition, hurricane Maria caused an interruption in the Authority's electronic toll system and train operation resulting in a loss of revenue. The Authority has insurance policies in force at the time of both hurricanes and expects to recover part of the losses incurred from the insurance companies. However, the physical damages to roads and bridges are not covered by insurance. Management expects to recover part of such damages with assistance to be provided by the Federal Emergency Management Administration ("FEMA").

Effective March 23, 2018, GDB ceased its operations.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN (OPEB)
FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (URAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (C)	URAL Percentage of Covered Payroll [(b)-(a)/(C)]
July 1, 2014	$ -	$ 2,745	$ 2,745	0.0	$ 52,106	5.3 %
July 1, 2012	-	2,735	2,735	0.0 %	94,172	2.9 %
July 1, 2010	-	7,662	7,662	0.0 %	84,158	9.1 %
July 1, 2009	-	7,185	7,185	0.0 %	91,936	7.9 %

SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF REVENUES AND EXPENSES BY SEGMENT (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

	Toll Roads	Integrated Transportation	Other	Total
Operating revenues:				
Toll fares	$ 134,180,791	$ -	$ -	$ 134,180,791
Train fares	-	10,731,483	-	10,731,483
Other revenues	4,239,048	958,198	31,373,741	36,570,987
Concession agreement	30,596,914	-	-	30,596,914
Total operating revenues	169,016,753	11,689,681	31,373,741	212,080,175
Operating expenses:				
Salaries and related benefits	8,748,377	1,124,115	15,460,675	25,333,167
Post-employment benefits	1,755,492	117,528	1,142,292	3,015,312
Toll highways administration and maintenance	23,624,764	-	-	23,624,764
Train operating and maintenance costs	-	52,864,569	-	52,864,569
Integrated transportation system	-	14,876,786	-	14,876,786
Repairs and maintenance in projects	3,701,357	48,205	41,987,454	45,737,016
Utilities	901,753	6,459,500	1,732,175	9,093,428
Other	5,411,813	4,248,740	8,128,025	17,788,578
Total operating expenses	44,143,556	79,739,443	68,450,621	192,333,620
Operating income (loss) before depreciation and amortization	124,873,197	(68,049,762)	(37,076,880)	19,746,555
Depreciation and amortization	61,248,855	48,387,517	342,223,041	451,859,413
Operating income (loss)	63,624,342	(116,437,279)	(379,299,921)	(432,112,858)
Non-operating revenues (expenses):				
Gasoline, diesel, oil and petroleum tax revenues	-	-	179,060,430	179,060,430
Cigarette tax	-	-	8,954,083	8,954,083
Vehicle license fee	-	-	46,474,705	46,474,705
Other revenues	-	-	189,957	189,957
Income from cancellation of debt service reserve forward agreement	-	-	12,079,000	12,079,000
Operating grants	-	24,415,601	-	24,415,601
Interest on bonds and lines of credit	(87,567,754)	(101,039,717)	(148,191,584)	(336,799,055)
Custodial credit risk loss on deposit with government bank	-	-	(13,640,410)	(13,640,410)
Net change in value of investments	-	-	133,488	133,488
Interest income	1,207,725	2,546,152	4,733,296	8,487,173
Total	(86,360,029)	(74,077,964)	89,792,965	(70,645,028)
Loss before capital grants and transfers	(22,735,687)	(190,515,243)	(289,506,956)	(502,757,886)
Capital grants	48,514,926	10,488,452	66,997,475	126,000,853
Transfers to Commonwealth	(79,800,000)	-	-	(79,800,000)
Change in net position	$ (54,020,761)	$ (180,026,791)	$ (222,509,481)	$ (456,557,033)